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RHEHNSC/NSC WASHDC PRIORITY
RUEAIIA/CIA WASHDC PRIORITY
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY
RHEBAA/DEPT OF ENERGY WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 03 ASHGABAT 000109

SIPDIS

SIPDIS

STATE FOR SCA/CEN, EUR/RUS, EEB (AMB. MANN)
PLEASE PASS TO USTDA DAN STEIN
ENERGY FOR EKIMOFF/THOMPSON
COMMERCE FOR HUEPER

E.O. 12958: DECL: 01/22/2018
TAGS: [PREL](#) [PGOV](#) [ENRG](#) [EPET](#) [ENIV](#) [TX](#)
SUBJECT: TURKMENISTAN'S HYDROCARBONS SECTOR: U.S. FIRMS
SEE LITTLE RECENT MOVEMENT BUT REMAIN OPTIMISTIC ABOUT
PROSPECTS

REF: A. 07 ASHGABAT 1209

- [B. 07 ASHGABAT 1353](#)
- [C. 07 ASHGABAT 1364](#)
- [D. ASHGABAT 0049](#)
- [E. 07 ASHGABAT 1318](#)

Classified By: Charge Richard E. Hoagland for reasons 1.4(B) and (D).

[1. \(C\) SUMMARY:](#) U.S. hydrocarbon firms have seen little progress since November (Ref. A) in terms of receiving responses from the Government of Turkmenistan to their offers. Looking to the future, Chevron has appointed an Amcit country manager and is opening an office in Turkmenistan. However, the government still has not responded to Chevron's initial proposal. The December kerfluffle regarding a Lukoil announcement that it had signed an agreement with the Government of Turkmenistan to develop three Caspian blocks seems to have blown over (Refs B and C), ConocoPhillips only now is returning to the negotiating table, and Lukoil/ConocoPhillips and the State Agency for Hydrocarbon Resources could reach an agreement very soon (Ref. D). TNK BP/BP continue to talk to Turkmenistan but, according to the State Agency's Director, Byrammurat Muradov, the talks up to now have been largely conceptual and "need more time." Finally, although Marathon had a "productive" meeting with President Berdimuhamedov in early December regarding its proprietary gas-to-fuels technology (Ref. E), it has not heard anything more from the Ministry of Oil and Gas. More than ever, the lack of progress seems to be attributable to a lack of confidence on Turkmenistan's part in dealing with large hydrocarbons firms and international hydrocarbons markets. Post hopes that a training program, which the U.S. Trade and Development Agency (USTDA) will begin in February, will help to address this problem and lead to tangible progress soon. We are also encouraging the State Agency to contract with an international law firm or other consultancy that would provide badly needed advice. END

SUMMARY.

CHEVRON

12. (C) During a January 19 meeting, Chevron's new country manager told the Charge that his company had submitted two proposals to Turkmenistan's State Agency for Management and Use of Hydrocarbon Resources during the November 13-15 oil and gas exhibition (TIOGE). Chevron had bid to develop the disputed Serdar offshore area if Turkmenistan could resolve its border dispute there with Azerbaijan. The firm had also submitted a joint venture (JV) proposal to increase Turkmenistan's onshore gas production in the Amu Darya basin.

Under the new JV proposal, Chevron said that it would assist Turkmenistan to increase production in existing fields with declining production and to begin working discovered but undeveloped fields. As part of its JV, Chevron also proposed to begin drilling Turkmenistan's dangerous-to-access subsalt reserves -- Chevron's top priority and an area in which Chevron is well-equipped, both in experience and technology, to work.

13. (C) During the Chevron manager's January 18 courtesy call on Muradov, however, Muradov had focused very narrowly on the Serdar bid, telling the manager that he should focus on "blocks" rather than "areas." (COMMENT: Post continues to hear rumors that the Canadian firm Buried Hill has at least a memorandum of understanding and possibly an unpublicized production sharing agreement (PSA) to develop Serdar in an agreement dating from former President Niyazov's tenure. According to Wintershall/Maersk Country Manager Kal Sandhu, Muradov at one point stated that Turkmenistan was aware of rumors suggesting that Buried Hill is a "shady operation" and

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that it did not want to have anything to do with the firm, but could not come up with a legal way of abrogating the arrangement. END COMMENT.) The Chevron manager said that his company submitted a bid to work Serdar because it believes that Serdar is the only offshore area with "worthwhile prospects" for drilling. When the Chevron manager had tried to pump Muradov on the JV proposal, Muradov had referred the manager to Deputy Chairman of the Cabinet of Ministers for Oil and Gas Tachberdi Tagiyev. Responding to a question, the manager said Chevron will only work the Amu Darya basin through a JV agreement and will not agree to a service agreement. "It's not right for us to have only a service agreement there when we're one of the largest hydrocarbon firms in the world."

14. (C) While Chevron is quickly coming to believe that Turkmenistan is only comfortable in dealing with small players that it can control -- Petronas, Dragonoil and Burren Resources -- the manager said he is considering a new approach which would link what Turkmenistan wants -- a major company working offshore -- with a JV focused on developing subsalt gas production that would offer Turkmenistan tremendous expertise in subsalt drilling. Therefore, the manager was prepared to use a package approach of "we don't say no to offshore cooperation if you don't say no to onshore cooperation." Chevron will begin to work up a fuller proposal that would offer more detail than the 10-page proposal that it gave the government in November.

15. (C) Despite these frustrations, Chevron is establishing an office in Ashgabat. The company is continuing to work on registering itself as a legal entity and hopes to have the process completed in the next few weeks (although, the manager added, like everything else, this schedule could still slide if Chevron hits any bureaucratic snags). The company is leasing and retrofitting a two-story block of offices in the Arkach Hotel (one of the small, "loser" hotels that Niyazov forced his ministries to build on the increasingly prestigious Archibil Road).

CONOCOPHILLIPS

¶16. (C) ConocoPhillips seems to have recovered from its dismay following a December 12 Lukoil press release stating that Lukoil had signed an agreement with the Government of Turkmenistan to work three offshore blocks (blocks 19, 20 and 21). All here, as well as ConocoPhillips itself, agree that the announcement was premature, rather than a covert Lukoil effort to cut its U.S. partner out of the action. With the winter holidays over, ConocoPhillips is returning to its negotiations and hopes to send a team to Ashgabat in the next few weeks. Commenting on ConocoPhillips' prospects, State Agency Executive Director Muradov told the Charge January 10 that, if ConocoPhillips/Lukoil's position has not changed since the last round of negotiations, the two sides could reach an agreement very soon. According to Muradov, "We are very, very close."

TNK-BP/BP

¶17. (C) TNK-BP/BP has not visited Turkmenistan since November. Muradov told the Charge January 10 that BP is a "serious company" that has explained in general terms its philosophy for developing the Caspian Sea. However, the company has not yet submitted a concrete proposal.

MARATHON

¶18. (C) Unlike other U.S. firms that are considering doing business in Turkmenistan, Marathon hopes to interest

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Turkmenistan in its proprietary gas-to-fuels technology, a gas-conversion process that is more carbon-efficient than conventional gas-conversion processes. A high-level delegation visited Turkmenistan the week of December 3 and presented its product to President Berdimuhamedov December 6.

While a company representative has confirmed that the president seemed interested in Marathon's product and that the meeting went well, there has been no further follow-up by either side.

¶19. (C) COMMENT: Although U.S. firms are still trying to get used to Turkmenistan's unique process for negotiating development of its hydrocarbon reserves, they are not alone in their frustration. The Government of Turkmenistan has yet to sign a single new production sharing agreement for offshore development. Post attributes the unwillingness of Turkmenistan's hydrocarbon sector agencies to commit to new agreements to officials' lack of confidence in dealing with large companies and unfamiliarity with international hydrocarbons markets, rather than to a dislike of the companies involved. Post hopes that the USTDA training program due to come on line in mid-February will help to address at least some of these issues. We are also encouraging the State Agency to contract with an international law firm or other consultancy that could provide badly needed expert advice to speed things along.
END COMMENT.
HOAGLAND